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Rising NPA in Agricultural Sector in India

*Anwesh Avinash Tripathy
College of Agriculture, OUAT, Bhubaneswar, Odisha
*Corresponding Author's email: tripathyavinash1522@gmail.com

The Indian banking sector has undergone a remarkable transformation over the last decade, migrating from a state of "Twin Balance Sheet" stress to record profitability in 2025. However, while industrial and corporate NPAs (Non-Performing Assets) have been largely tamed through the Insolvency and Bankruptcy Code (IBC), the agricultural sector continues to exhibit a stubborn trend of credit stress. Agricultural NPAs—loans where interest or principal remains overdue for more than 90 days—represent more than just a financial metric; they are a barometer of the socio-economic distress facing the nation's primary workforce.

Agriculture remains a gamble on the monsoon. Unpredictable weather patterns, including unseasonal rains, prolonged droughts, and flash floods, frequently destroy crops, leaving farmers with zero returns on their investment and no means to repay loans. Small and fragmented landholdings prevent many farmers from achieving economies of scale. High input costs (seeds, fertilizers, fuel) coupled with stagnant or volatile market prices often result in negative net income. Frequent announcements of farm loan waivers by various governments have created a culture of "strategic default." Expecting a waiver, even farmers with the capacity to pay may choose to withhold installments, leading to a ballooning of NPAs.

The fallout of these bad loans extends far beyond the farm gate. When agricultural NPAs rise, the health of Public Sector Banks (PSBs) and Regional Rural Banks (RRBs) takes a direct hit. Banks, burdened by high provisions for bad loans, become increasingly "risk-averse." This leads to a tightening of credit to the very sector that needs it most, forcing farmers back into the clutches of informal moneylenders who charge usurious interest rates. Banks must set aside a portion of their profits to cover potential losses from NPAs. This reduces their capital adequacy and limits their ability to fund other productive sectors of the economy, such as infrastructure or manufacturing. When the government steps in to recapitalize banks or fund loan waivers, it diverts taxpayer money away from essential public services like healthcare, education, and rural infrastructure.

Rising debt levels and the inability to repay loans lead to a cycle of psychological distress and, in extreme cases, farmer suicides. The social fabric of rural communities is strained as families lose land—their only asset—to debt recovery actions. This fuels rural-to-urban migration, putting further pressure on already overcrowded cities. Tackling the rise of agricultural NPAs requires a shift from "band-aid" solutions like waivers to long-term structural reforms. Strengthening crop insurance schemes to ensure timely and fair payouts can provide farmers with a safety net when the climate fails them. Investing in cold storage, warehouses, and better supply chains can reduce wastage and ensure farmers get a better price for their produce, improving their repayment capacity. Financial literacy programs are essential to help farmers understand the importance of timely repayment and the long-term benefits of maintaining a healthy credit score. Using satellite imagery and AI-driven data to assess crop health and credit risk can help banks make more informed lending decisions, reducing the likelihood of default.

The fallout of agricultural NPAs is a systemic challenge that requires moving from a culture of "credit as a subsidy" to "agriculture as a viable business." While the banking sector's recovery is commendable, the rural engine must be synchronized with this growth. Only through a combination of climate-resilient farming, digital transparency, and credit discipline can India ensure that its fields remain green and its bank ledgers remain black.